

# Economic Planning before 1914

By [Martin Horn](#)

This article surveys the financial and economic planning for war before 1914 in the European Great Powers that initially entered the conflict – Austria-Hungary, Britain, France, Germany and Russia. It argues that while there was limited financial and economic preparation for war, this situation was not due entirely to the short-war assumption. It suggests that only in Britain before 1914 was there a more expansive conception of economic planning that embraced economic warfare. Finally it is noted that economic planning for war remains an area that is under-researched by scholars and that more work may alter our understanding.

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## Introduction

Historians once asserted confidently that Europeans expected the war which broke out in July 1914 to be over by Christmas. It was recognized, however, that some Europeans who had experienced war such as [Helmuth von Moltke \(1800-1891\)](#) the elder and Lord [Horatio Herbert Kitchener \(1850-1916\)](#) thought otherwise. Their imagined war was long and sanguinary. That this view might be more common than allowed was subsumed. In recent decades scholars have observed that the ranks of military men who did not see a future war as ending after a few months were disturbingly large. Beyond the military, the banker [Ivan Bloch \(1836-1902\)](#) famously predicted a lengthy, wearing encounter among states in which economic factors would be critical in the outcome. A range of writers on economic issues advanced similar notions in [France](#) before 1914. There is now enough evidence to suggest that attitudes toward the next war were more wide-ranging when it came to forecasting the war's length.<sup>[1]</sup> The short-war assumption was held by many but was by no means universal. This point is relevant to the question of pre-war economic planning for war in Europe. Historians, when considering this question, have been inclined to explain it by citing the short-war assumption. Was this so? Does the evidence of pluralism regarding the length of the next war mean that we need to refine our understanding of the importance of the short-war assumption in pre-war economic preparation? The answer given here is a qualified yes. The short-war assumption did shape pre-war economic planning but so too did other factors, notably the limitations of the state.

What follows surveys the economic and financial preparations of the European Great Powers who entered war in 1914 – [Austria-Hungary](#), [Britain](#), [France](#), [Germany](#) and [Russia](#). Unsurprisingly given its dominance over global finance and central position in the flows of world commerce in 1914, historians have paid the most attention to Britain. The other European Great Powers who entered war in 1914 have received less attention and in one case, Austria-Hungary, has almost been entirely overlooked. In considering the Great Powers it is helpful to separate the matter into two categories: financial preparations and

economic preparations. Financial preparation involved outlays of money on military expenditures and readying financial systems to meet the shock the war. Economic preparations were more direct, at their broadest insuring the readiness of both the civilian and military world in matters of supply and [logistics](#), from food to forage. As far as finance was concerned, all of the Great Powers save Austria-Hungary took steps to ensure their financial readiness for war when it came. Gold was at the heart of these initiatives. Whether or not these measures were adequate is a different issue. As the war unfolded it was patently apparent that they were not. Economic planning for war was less common. Only in Britain can one speak of sustained discussions of economic preparations for war and only in Britain is the conception of waging economic warfare as a means to victory apparent.

## Financial Planning

One notion can be dismissed immediately – the idea that contemporaries were unaware of the connections between [finance and war](#). The oft-commented on phenomenon of the military build-up before 1914 – both army and navy – was a singular feature of the European landscape. While the growing financial burden was not insupportable for the Great Powers, it was a factor in the contentious deliberations surrounding taxation as a means to cope with rising central government expenditures. Such debates occurred in Britain, France, and Russia before 1914, where the question of an introduction of an income tax became the lightning rod. Of the three, only Britain eventually adopted an income tax before the coming of war. It has been argued that in Germany the financial constraints imposed by the necessity of raising funds through the federal states that made up the [Empire](#) shackled military expenditures before 1914 to the detriment of German power.<sup>[2]</sup> Finding the means to pay for growing military expenditures preoccupied the Great Powers. The conclusion is inescapable: political, military and financial circles in all of the powers were well aware of the relationship between financial wherewithal and military strength.

This conclusion is not surprising, when for centuries European states had waged war with one eye on their foes and the other squarely on their own treasuries. While the days of mercenaries were long past, older notions of a war-chest continued to exist. The pre-1914 form of a war-chest was the gold reserve held by central banks. The obsession with gold was understandable. All of the European Great Powers were on the gold standard before 1914. Convertibility of note issue into gold underpinned the legitimacy of currencies as well as easing trade through fixed exchange rates. In the continental states a substantial gold reserve was seen as a shield against inflation and psychologically reassuring to populations traumatised by the outbreak of war. Curiously convertibility was not the issue, for in France, Germany and Russia it was assumed that leaving the gold standard would accompany hostilities. Rather gold served to dampen social and economic dislocation attendant upon the coming of war. How large a gold reserve was required to prepare for war? There was no uniform answer nor did all of the Great Powers subscribe to amassing gold. In France, Germany, and Russia there was a determined effort before 1914 to boost the size of the gold reserves. French gold reserves climbed smartly from 1,945.5 million francs in December 1897 to 3,507.7 million [£ 139.1 million] in December 1913. German gold reserves rose from 596 million marks in 1905 to 1.17 billion [£ 54.1 million] in 1913, while Russian gold reserves of 903 million rubles in 1906 had reached 1.688 billion in 1913 [£ 174 million]. No such surge occurred in Austria-Hungary, where the gold reserve peaked in 1909 and thereafter declined for reasons that were related to the weak financial position of the empire.<sup>[3]</sup> The British case was anomalous. A fierce debate on the size of the gold reserve took place before the war, in the context of worries expressed in government and City of London circles that the Bank of England's holdings were inadequate should an emergency arise. Despite pressure from various quarters, the view that it was impossible to raise the Bank's holdings to a level safe enough to withstand the shock waves of a major catastrophe, such as a general war, won the day. The consequence was that no sustained effort was made to increase the Bank of England's gold reserves.<sup>[4]</sup> In these variable responses, expectations of a short war as a guiding assumption figured prominently in Russia and Austria-Hungary, as [Peter Gatrell](#) and Eduard März have shown, but not elsewhere.

The central banks issued notes, held the gold reserve, acted as the lynchpin of financial markets through discounting, and necessarily consulted regularly with their respective treasuries. These common functions did not mean that their links to the state were identical. The Bank of England and Bank of France were privately owned and as such had an arm's length relationship with the state. The German *Reichsbank* was also private, however, it was much more under the control of the [government](#) than either the Banks of England or France and is best thought of as an adjunct to the state rather than separate from it. The Russian State Bank and the Austro-Hungarian Bank were state institutions. Strikingly it was a private institution – the Bank of France – that went furthest in the direction of preparatory measures for war. Its pre-war governor, [Georges Pallain \(1847-1923\)](#), who had overseen the steady rise in the gold reserve since being appointed to his position in 1897, reached a

convention with the state in 1911 that dictated the amount and terms of money that would be advanced to the government in the event of war. The Bank planned for the distribution of the gold reserve if need be to branches outside of Paris, and it was agreed that convertibility would be suspended. The other private central bank, the Bank of England, was much less ready for war in 1914, and when war came the crisis struck hard with indecision exemplifying the Bank's response. As for the *Reichsbank*, [Rudolf von Havenstein \(1857-1923\)](#), the pre-war governor feared that Germany was not ready for war financially. Such tentative steps that were adopted or discussed were due to his initiatives. In 1914 Havenstein warned the leading German banks of the dangers of illiquidity in the event of war. When war came the *Reichsbank* planned to abandon convertibility and to discount short-term treasury bills as the government required. In Austria-Hungary virtually nothing was done, while the Russian State Bank trusted that increasing the gold reserve was the only measure that was needed.

## Economic Planning

If financial preparations for war were apparent before 1914, did this extend to economic planning? Here two questions dominated: food supply and economic preparation. Food supply was not treated seriously everywhere. A summary of the Austro-Hungarian war economy has pointed out that the wartime shortages of foodstuffs that rapidly became apparent could be traced to the pre-war inability of the Austrian and Hungarian governments to make arrangements for "how to meet the food requirements of either the armed forces or the civilian population in case of war."<sup>[5]</sup> Similarly there is little to suggest that either in France or Russia were questions of food supply raised. The British and German cases were distinct. Avner Offer, whose work remains the best treatment of the subject, has pointed out that in both states there existed a sensitivity to, and understanding of, the problems of food supply that was discussed regularly from 1906 onward. However, little of a practical nature was done. Despite, for example, discussion in Germany by the Prussian War Ministry, the Ministry of the Interior, and the General Staff "the sum total of all this activity, which took place at the highest governmental and military levels, was almost nil." Offer concludes that the reason for this outcome was due to a lack of coordination among competing bureaucracies and the unwillingness of the General Staff to acknowledge that Germany's war effort might be vulnerable to economic pressure.<sup>[6]</sup> Similarly, while [Matthew Seligmann](#) has recently shown that the German Admiralty Staff planned to attack British trade through the deployment of commerce raiders, the opposition of Admiral [Alfred von Tirpitz \(1849-1930\)](#) hindered the adoption of such ideas until shortly before the war.<sup>[7]</sup>

Questions of economic preparation involved imagining the needs of the civilian population and the military. It was concerns for the latter that dominated. Economic preparation at its simplest was devoted to ensuring that a sufficient supply of [artillery](#), [rifles](#), ammunition, uniforms, boots, and all the paraphernalia that a mass army required was available to enter into war and to sustain it for the duration of the conflict. Calculations of expenditure rates as well as projections of losses tied to the foreseen intensity and length of the conflict offered a guideline as to what was likely to be needed. Forecasting the demands of modern warfare was the responsibility of the military in the European Great Powers. Typically it was a task undertaken by the general staffs, or in Russia by the ministry of war. One of the characteristics of European militaries in decades before 1914 was their growing professionalization. While this process was halting, incomplete, and riddled with exceptions, nonetheless there was a widespread recognition that modern warfare required a command of logistics and supply. Staff officers whose task was to master such questions proliferated. From this it might be thought that especial attention would be devoted to the economic ramifications of mobilizing, marshalling, transporting, and then sustaining armies of millions.

This was not the case. France supplies a vivid illustration of the ways in which the lack of coordination among bureaucratic, military and private concerns manifested. In 1913 the mines in the Briey basin, close to the Franco-German border, produced the majority of the iron ore mined in France. Briey fell to the Germans in the opening weeks of the war, and with its loss went much of the heavy industry of France, for not just the mines but also blast furnaces, smelters, and workshops were located there. The parliamentary commission, convened in 1919 to explore why Briey was lost, heard testimony from industrialists, politicians, and military men. Characteristic was the response of [Guy de Wendel \(1878-1955\)](#), head of the *Comité des Forges*, the French heavy industry association, when asked whether industrialists ever discussed economic planning for war: "In all sincerity, no". As the historian Richard Challener observed, "no responsible member of the High Command or of the government had truly foreseen that a region producing great quantities of ore and finished iron goods would be of any value to France in the prosecution of a war."<sup>[8]</sup> Challener's answer as to why this was the case was that military men, politicians, and industrialists alike, believing in a mass, conscript army, in thrall to what was later labelled the cult of the offensive, had convinced themselves that a short war would result from the clash of armies. It is an answer that subsequent French historians, such as Rémy Porte,

have accepted.<sup>[9]</sup> The late Gerald Feldman, writing in 1999 on Germany, echoed Challenger:

There were scarcely any preparations in the German private economy for the war, and neither the German government nor the German military called on the private economy to make much preparation for the short war they were anticipating, let alone for the "total war" that was quite beyond their imaginations.<sup>[10]</sup>

While Challenger and Feldman stressed the short-war assumption as responsible for this state of affairs, both had also noted the weakness of the state. Throughout Europe the state was assumed to play the leading role in a war when it came. But the state was far more circumscribed in its reach, powers, and presence in the economy than it became after 1914. In this connection it is worth recalling just how limited government spending was as a portion of national income. In 1913 in France it was 10 percent, in Germany 9.8 percent, in the UK 8.1 percent. By comparison, in 1938 French government expenditure as a percentage of national income was 30 percent, in Germany 35 percent, and in the UK 23.8 percent.<sup>[11]</sup> Nor were those in power in Europe before 1914 anxious to alter this state of affairs. Liberal economic principles were the orthodoxy of pre-war Europe. Economic planning for war fell into the interstices between state concerns and private industry. The notion of an Economic General Staff, mooted in Germany before the war, did not exist among the Great Powers. While there was an awareness of the demands that a general great-power war would impose, the limitations of state authority, the parochialism of a military outlook focused on the problems of fighting rather than supply and the disinterest of the private sector rendered economic planning for war a heretical notion. The *dirigiste* state was a product of the Great War and not its progenitor.

Britain, the exemplar of the liberal, free-trading state, was a partial exception. Because Britain was so dependent upon trade, so intimately entwined with global commerce, an awareness of the importance of economic questions in wartime was axiomatic. The existence of the Committee of Imperial Defence [CID], allowed for the dissemination of the work of the Admiralty with respect to economics and war to political and commercial circles. David French, in his pioneering work, was the first scholar to trace the interaction of British economic and strategic planning. French argued that two schools of thought, one he deemed "optimists", the other "pessimists", existed. Optimists thought that war was unlikely due to the economic ties between states, while the pessimists believed that economic interdependence would necessarily curtail any general war. Both views in French's assessment precluded the development of meaningful economic preparation.<sup>[12]</sup> Seligmann has challenged the idea that the Royal Navy did not contemplate economic warfare seriously before 1914.<sup>[13]</sup> But it is Nicholas Lambert who has advanced the most comprehensive new interpretation. Lambert argues that economic warfare was the grand strategy of the British Empire in the event of war with Germany. The locus of this planning was found in the Admiralty. Planners were prompted by the threat posed by the French *jeune école*, Admiral Sir John Fisher's (1841-1920) strategic reconceptualization of the Royal Navy and the emergence of Germany as the likely foe to consider the ways in which Britain's strengths – its navy, its financial dominance, its control of cable communications, its geographic position vis-à-vis Germany – might be put at the service of economic warfare. The aim was to sever German cable communications, to cut all sea-borne trade thus inducing starvation to bring about a rapid collapse of the German economy. Lambert stresses that economic warfare was understood as a means of winning the war quickly and thus was not incompatible with a short war. He sees the short-war assumption as reinforcing the adoption of an economic warfare strategy. Through the CID this approach won Cabinet approval in 1912. In 1914 Britain entered war with the aim of implementing this strategy, but it was jettisoned swiftly as a nervous Cabinet, under pressure from the City and fearing the reaction of neutrals, especially the [United States](#), gutted economic warfare. Blockade was the substitute.<sup>[14]</sup>

## Conclusion

Lambert's argument reopens the question of economic planning for war before 1914. It has already attracted comment, in the form of Stephen Cobb's study on the Royal Navy and plans for economic blockade.<sup>[15]</sup> There is no dissent from the proposition that as the First World War unfolded the European Great Powers were unprepared to fight it from a financial and economic standpoint. This does not mean that there was no consideration of these matters before 1914. The research that has been done indicates there was, albeit in limited ways and to a limited degree. While much has been written about military planning for war before 1914 much less has been written about the economic planning for war. Acceptance of the short-war assumption has been a suffocating blanket covering the question. Writing in 2007 the authors of a lengthy article in the *Journal of Modern History* lamented the absence of the "counting-house" in discussions of the origins of the war.<sup>[16]</sup> While this observation was not original, it does have renewed force. Future research into what are presently under-explored questions may well change further our understanding regarding pre-war economic planning.

## Notes

1. ↑ See for example Förster, Stig: "Dreams and Nightmares: German Military Leadership and the Images of Future Warfare, 1871-1914", in Boemeke, Manfred/Chickering, Roger/Förster, Stig (eds.): *Anticipating Total War: The German and American Experiences, 1871-1914*, Washington 1999, pp. 343-376; Herwig, Holger: "Germany and the 'Short-War' Illusion: Toward a New Interpretation", *Journal of Military History* 66 (2002), pp. 681-93; Horn, Martin/Imlay, Talbot: "Money in Wartime: France's Financial Preparations for the Two World Wars", *International History Review* 27/4 (2005), pp. 709-753.
2. ↑ On the financial burden of military expenditures, Hobson, John A: "The Military-Extraction Gap and the Wary Titan: The fiscal-sociology of British defence policy 1870-1913", *Journal of European Economic History* 22/3 (1993), pp. 466-507; Eloranta, Jari: "From the great illusion to the Great War: Military spending behaviour of the Great Powers, 1870-1913", *European Review of Economic History*, II (2007), pp. 255-83; Ferguson, Niall: "Public Finance and National Security: the Domestic Origins of the First World War Revisited", *Past and Present*, 142 (1994), pp. 141-68.
3. ↑ For French reserves, Horn, Martin: *Britain, France and the Financing of the First World War*, Montreal 2002, p. 23; on Germany, Feldman, Gerald: *The Great Disorder: Politics, Economics and Society in the German Inflation 1914-1924*, Oxford 1997, p. 30; for Russia, Gatrell, Peter: *Government, Industry and Rearmament in Russia, 1900-1914: the last argument of Tsarism*, Cambridge 1994, p. 312; on Austria-Hungary, März, Eduard: *Austrian Banking and Financial Policy: Creditanstalt at a turning point, 1913-1923*, trans. Charles Kessler, London 1984, pp. 99-100. Conversions into sterling at pre-war rate of 25.22 francs/sterling; marks at 1913 rate of 20.65 marks/sterling; rubles at 1913 rate of 9.7 rubles/sterling. For rates see Denzel, Markus A: *Handbook of World Exchange Rates, 1590-1914*, Farnham 2010.
4. ↑ The gold controversy is discussed in Clapham, John: *The Bank of England*, Cambridge 1945, II, pp. 342-50; Sayers, R.S.: *The Bank of England*, Cambridge 1976, I, pp. 60-65; and de Cecco, Marcello: *The International Gold Standard: Money and Empire*, 2<sup>nd</sup> ed., London 1984, pp. 139-41.
5. ↑ Stephen-Schulze, Max: "Austria-Hungary's economy in World War I", in Broadberry, Stephen/Harrison Mark (eds.): *The Economics of World War I*, Cambridge 2005, pp. 91, 95.
6. ↑ Offer, Anver: *The First World War: An Agrarian Interpretation*, Oxford 1989, p. 341. More generally, pp. 331-344.
7. ↑ Seligmann, Matthew S.: *The Royal Navy and the German Threat, 1901-1914: Admiralty Plans to Protect British Trade in a War against Germany*, Oxford 2012: DOI: 10.193/acprof:oso/9780199574032.001.0001, Chapter 1, "Handelskrieg gegen England".
8. ↑ De Wendel quoted in Challener, Robert: *The French Theory of the Nation in Arms 1866-1939*, New York 1965, p. 100. Challener's comment is on p. 98 and he discusses Briey and the parliamentary investigation on pp. 95-100.
9. ↑ Porte, Rémy: *La Mobilisation Industrielle: Premier Front de la Grande Guerre*, Paris 2005, pp. 58-59.
10. ↑ Feldman, Gerald: "Hugo Stinnes and the prospect of war before 1914", in Boemeke/Chickering/Förster (eds.), *Anticipating Total War* 2006, p. 77.
11. ↑ Figures for 1913 from Broadberry and Harrison, *The Economics of World War I*, Table 1.5 p. 15; for 1938, Abelshausen, Werner: "Germany: guns, butter and economic miracles", in Harrison, Mark (ed.): *The Economics of World War II*, Cambridge 1998, Table 4.6, p. 139.
12. ↑ French, David: *British Economic and Strategic Planning, 1905-1915*, London 1982, pp. 7-8.
13. ↑ Seligmann, *The Royal Navy and the German Threat* 2012.
14. ↑ Lambert, Nicholas A: *Planning Armageddon. British Economic Warfare and the First World War*, Cambridge 2012, pp. 1-278.
15. ↑ Cobb, Stephen: *Preparing for Blockade 1885-1914*, Farnham 2013.
16. ↑ Williamson Jr., Samuel R./May, Ernest R: "An Identity of Opinion: Historians and July 1914", *Journal of Modern History*, 79 (2007), p. 341; Roberts, Richard: *Saving the City: The Great Financial Crisis of 1914*, Oxford 2013.

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